

Review of issues for the skilled nursing facility payment system

ISSUE: What are the major issues for MedPAC's analysis of the skilled nursing facility (SNF) payment system in the coming year?

KEY POINTS: The SNF prospective payment system (PPS) became effective in July 1998. In MedPAC's March 2002 report, we identified two issues with the SNF PPS that will continue to be important in the coming year, including:

- the need to replace the current classification system—The SNF patient assessment instrument does not collect certain information needed to identify medically complex patients; it is subject to a high rate of error in classifying patients; it classifies rehabilitation patients based on services provided rather than patient characteristics, giving SNFs incentives to provide therapies when they may not be beneficial; and it allocates expected resource use inappropriately.
- ensuring adequate payments—In 1999 and 2000 legislation, Congress implemented three temporary rate increases, designed to preserve beneficiaries' access to high quality SNF care. Two of the three temporary rate increases are scheduled to expire this month (September 2002). Last year, the Commission concluded that SNF payments appeared to be adequate without these two payment increases, but recently proposed House and Senate bills would extend one of them, in revised form, through 2005.

In addition, the Commission may want to consider:

- quality of care in SNFs following implementation of the SNF PPS. Costs per day for freestanding SNFs dropped substantially from \$305 in 1997 to \$240 in 1999. SNFs may have been able to cut costs by negotiating lower prices for contract therapy and pharmaceuticals. SNFs also substituted lower-cost labor for higher-cost labor. We do not know, however, how these cost cutting measures have affected the quality of care furnished to beneficiaries in SNFs.
- whether SNF payments should be set to compensate for lower Medicaid nursing facility payments.

ACTION: At this meeting, staff will provide a brief overview of SNF issues and a description of how we plan to proceed with this year's analysis. This discussion will provide background on the issues in preparation for SNF payment adequacy discussions at the November and December Commission meetings (for the SNF chapter in the March 2003 report).

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